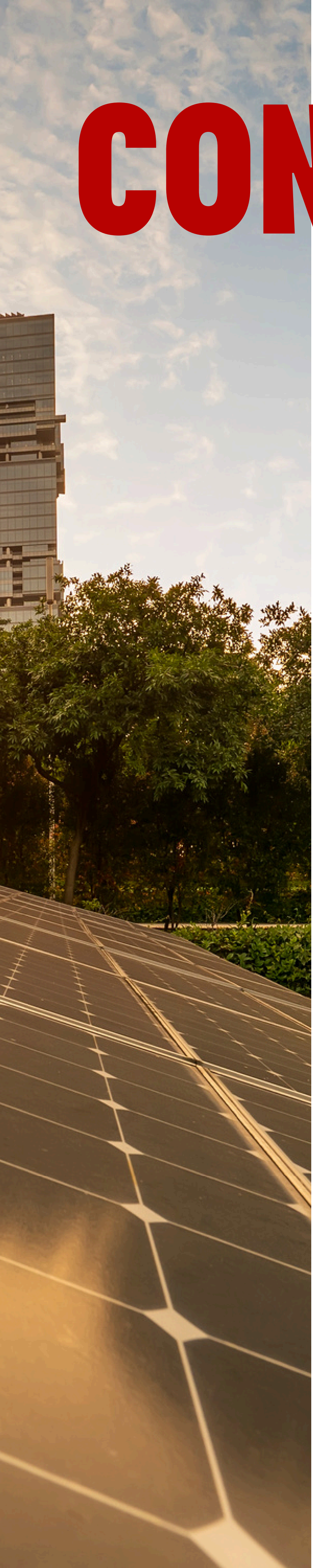
PMCJ!
Philippine Movement for Climate Justice

ADB-ETM:
MORE HARM THAN GOOD?

***6 Non-Negotiables** for a True Energy Transition*



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Executive Summary

The Asian Development Bank (ADB) is promoting itself as a leader of bold actions for accelerating the coal transition to clean energy when it launched the Energy Transition Mechanism (ETM) in 2021. With the recognition of the worsening threat of the climate crisis in Asia and the Pacific, cutting emissions from the coal-fired power plants, as the largest source of greenhouse gas emissions, is the path the region must take to meet climate targets. However, having this mechanism in place will not absolve the Bank's history as a fossil fuel enabler. For an energy transition to be successful, ADB should put climate justice at the center of its framework for climate finance and address serious concerns stemming from its past and ongoing investments in dirty projects in Asia.

ADB's energy legacy in the Philippines played a critical role as the key architect of major coal-fired power plants in the country by supporting the Calaca and Masinloc plants back in the 90s. It also left an indelible mark on enabling the Electric Power Industry Reform Act (EPIRA), the privatization of the power sector through restructuring and dividing the industry into four sectors: generation, transmission, distribution, and supply. Through technical assistance and policy-based lending schemes, ADB promoted larger private sector involvement in the power industry to deliver an affordable, efficient, accessible, and sustainable power supply.

Almost 25 years later, consumers are met with frequent outages, higher electricity prices, anomalous power supply agreements, and fossil fuel expansion projects.

The clean coal technology was also advanced by the Bank when it provided a $120 million loan to construct the Naga Coal Plant in Cebu. It also acted as the transaction advisor for the first liquefied natural gas (LNG) hub in the Philippines, located in Batangas City, that houses the center of the center of marine biodiversity in the world. To date, the Bank continues to influence structural changes in the country's responses to climate commitments and energy policies, taking shape in the form of financing modalities and programs to support transition.

Given the ADB's market-based coal retirement mechanism (CRM), efficiency concerns, and the need to ensure redress, reparations, and ecological rehabilitation in the affected communities of coal plants, it is crucial to adopt a holistic and nuanced approach to just transition. This should be grounded in an inclusive, participatory, transparent, and accountable process. The Philippine Movement for Climate Justice (PMCJ) has outlined six must-haves in the discourse on energy transition and why the ADB ETM is not on the right track to the notion of climate justice and just energy transition.

Just Transition as Socio-Economic Transformation

Just transition is a labor-oriented concept that emphasizes equity and justice associated with the efforts to transition from a carbon-intensive economy to a low-carbon economy. The Philippine Movement for Climate Justice (PMCJ) defines just transition as the socio-economic transition of a high carbon-intensive economy to a low carbon economy, in accordance with science, to ensure that average global temperature does not exceed 1.5 degrees at the end of the century. It incorporates the notion of climate justice and ecological debt along with historical accountability and fulfillment of the big polluter's obligation.

While there is no one-size-fits-all framework for a just transition, PMCJ identified four pillars to transition from a fossil fuel-dependent economy to a green economy in the Philippines, taking into account the lived experience of coal-affected communities and ensuring the protection of sectors that will be affected by the transition.

Kabataan para sa Kalikasan ng Atimonan (KAPAKANAN) with PMCJ, in Atimonan, Quezon

This includes establishing a formal space for grassroots and community-based organizations in the climate policy-making process, penalizing private corporations both financially and criminally for propagating fossil fuel dependence, social protection of workers (formal and informal) affected indirectly or directly by the transition, developing and investing in renewable energy technologies and reinvigorating a diverse local economy destroyed by the fossil based economy.

This framework is in direct contrast to the ETM as it aims to "incentivize the early retirement or repurposing of coal-fired power plants and other carbon-intensive power generation (e.g., heavy fuel oil) while also unleashing new investments in clean energy, grid modernization, and energy storage." However, repurposing coal-fired power plants through this bailout scheme of the coal phaseout instrument, especially those backed by multilateral development banks that have historically funded coal projects, only paves the way for misleading and false solutions for the climate crisis.

ADB's carbon-intensive energy portfolio

The ADB prides itself as a climate champion among international financial institutions (IFIs) despite its carbon-intensive energy lending portfolio. In October 2021, the ADB officially put into writing its commitment to stop financing "coal mining, processing, storage, and transportation, nor any new coal-fired power generation."

However, instead of addressing the harms and grievances of their coal-funded projects, the ADB's policy direction began exploring CRM planning and financing. From the commitment to stop financing fossil fuel, ADB's energy policy instantly shifted to financing the early retirement of "coal-based power plants and the enhancement of power generation dispatch regimes to discourage the use of high-emitting, inefficient coal-fired power plants."

According to Energy Policy Tracker, between 2020 and 2021, the ADB allocated at least $6.49 billion to support energy projects through new loans, grants, and guarantees. Of this amount, 4%—approximately $262.10 million—was directed toward fossil fuels without any conditionalities, while 1.9%, or $210.40 million, was allocated for fossil fuels with conditions. In the Philippines, the ADB has a total of $17.89 billion in financial commitments, which includes $9.73 billion for power and distribution and only $847.9 million for energy efficiency efforts. Overall, the ADB is involved in 69 energy projects, with 8 currently active, 3 proposed, and 58 closed. This engagement further entrenches the country's reliance on fossil fuels and hinders progress toward a low-carbon economy.

About the Energy Transition Mechanism

Under the ETM, the retirement and repurposing of coal plants come from concessional and commercial capital (i.e., investment from government, multilateral banks, private sector investors, philanthropies, and long-term investors). This early retirement scheme aims to reduce 200 million tons of carbon dioxide emissions per year, which is tantamount to getting 61 million cars off the road.

Under the CIF-ACT, $95 million in debt from ADB and $285 million in funding from yet to be identified commercial co-financiers are allocated to facilitate the repurposing of the 210 to 232 megawatt (mW) Mindanao plant. A combination of 1) concessional and commercial capital, 2) subsequent decommissioning or repurposing of assets, and 3) replacement of power with clean energy and transmission assets will be utilized to expedite the early retirement of STEAG.

The IP has two major components: 1) accelerating retirement/repurposing of CFPP and replacement of power, and 2) just transition and governance. Under the first component, a $355 million CIF concessional loan is allocated to protect coal operators from the financial impact of early retirement and support the repurposing and replacement of resources with clean energy and transmission assets.

In addition, the $8 million CIF grant will support the associated labor force, vendors, and supplies, and indirect impacts on the local workforce, businesses, and the financial sector. In the second component, a $120 million CIF concessional loan and a $17 million CIF grant are allotted to develop reforms in the energy transition areas, a national just transition approach, economic and livelihood opportunities o affected communities, training and innovations in the RE sector, and technical assistance in energy transition.

The CIF-ACT IP also envisions to avoid 33 million tons of potential GHG emissions by 2030, accelerate the voluntary retirement of up to 900 MW existing coal plant by 2027, abate the usage of and divert up to 25 million tons of coal by 2026, install 1500 MW RE by 2030, and support 80% employment of employees of retired CFPPs through the investment plan projects.

While it is important to set ambitious climate goals, the ETM, at its core, is an instrument for corporations and financial actors to prolong the fossil fuel use, and support coal projects that continuously harm the host communities and the environment to circumvent accountability and responsibility.

The Mindanao CFPP

STEAG Power Plant in Villanueva, Misamis Oriental

The Mindanao CFPP, also known as STEAG, is a bituminous fuel located at the PHIVIDEC Industrial Estate at Villanueva, Misamis Oriental. It is the first CFPP in Mindanao and the only government-owned coal plant in the country. It was built through the Build Operate Transfer (BOT) concession with the state-owned National Power Corporation (NPC) in 2006, which will expire on November 15, 2031. The STEAG Power Inc. (SPI), which is majority-owned by AboitizPower, currently operates the Mindanao plant. A few months after the approval of the IP in 2023, Aboitiz expanded its share by 15.6 percent, raising its total ownership of the plant to 85%.

After the contract, the asset would transfer to the state-run firm Power Sector Assets and Liabilities Management Corporation (PSALM), which owned and managed assets and liabilities previously owned by NPC. This implies that AboitizPower will receive financial compensation for repurposing the plant using public funds, while the government will take responsibility for any stranded coal assets after the contract ends. While the communities in San Martin, Villanueva, the host barangay, continuously struggle with the impact of the Mindanao Plant, AboitizPower will continue to rake in profit until the end of the contract.

Up until now, communities from San Martin have yet to be consulted regarding the ETM implementation



STEAG Power Plant in Villanueva, Misamis Oriental

and social, health, and environmental impact assessment of the Mindanao CFPP.

According to the PMCJ's interview with the community, the existence of the plant worsened the air and water quality, displaced fisherfolk from theirtraditional fishing grounds, and decimated fish catch. The plant is also located in front of the Macajalar Bay, which features marine protected areas including Tubajon, Alubijid, and Barangay Taytay. The designation of these protected areas was established through the Brgy. Ordinance No.94, Municipal Ordinance No. 45-2006, and the City Fishery Code of 2012. Moreover, since the establishment of the plant in 2006, it has not provided economic opportunities for the communities in Barangay San Martin. In fact, it has destroyed the livelihood of the people.

Before the construction of the plant, the main livelihood of communities in the PHIVIDEC estate was farming and fishing. However, because of the construction of the plant, the communities were given relocation sites in Tambal, which is in the mountainous part of Misamis Oriental. Some communities were paid 350 pesos per square meter of their lot in the PHIVIDEC; some, however, did not receive any compensation until now. Due to the location of the relocation site, many fishing communities chose to leave and build their homes near the sea. For them, livelihood is an inherent part of their culture and identity. As a result, even after being relocated, they returned and sought permission from PHIVIDEC to cultivate their former lots. Unfortunately, the plant has adversely affected soil quality. Previously, their harvest period lasted six months, but now it has been reduced to only four months. Furthermore, the quality of the produce has significantly declined, leading community members to use much of their harvest in feeding pigs instead of consumption.

Loopholes in ADB's Energy Transition Strategy

Business-as-usual: No True Coal Exit

The core mandate of ADB is being mentioned multiple times for a reason that it has also done multiple failures to meet the underlying goals of its development projects, which is to 'support' and not undermine the status quo of developing countries like the Philippines. Over the past six decades of providing loans, ADB has been consistent in applying business-as-usual approaches to country borrowers blinded by economic growth and development aggression, sacrificing the basic human rights of Filipinos, all of which are anchored to debt.

ETM is a plain illustration of their genuine intention in providing climate-resilient solutions and also a test for ADB to evaluate the effectiveness of their 'development projects' in eradicating extreme poverty in Asia and the Pacific. Primarily, ETM focuses on hastening the transition away from fossil fuels to clean energy options by decommissioning and repurposing coal-fired power plants. However, the actual implementation of this initiative is not even close to what the Filipino people expect to benefit from, as the retirement program is purely voluntary and is not strictly applicable to the coal-fired power plants that ADB has funded.

This is where the real agenda of ADB unfolds. If the ADB 'promised' to achieve a resilient and sustainable Asia and the Pacific by putting an end to funding new coal-fired power generation, its effort to reach its plan for decarbonization is weak and insufficient. To align itself with the 2021 Energy Policy, it has to have a multi-sectoral approach to ensure that no one is left behind despite accelerating the transition, and address the harms that were incurred through the coal-fired power plants funded by ADB. An example is using the decarbonization plan, wherein borrowing countries are allowing ADB to take the center stage in dictating what should be done instead of conducting an inclusive and people-centered consultation to curate a plan aligned with their current situation.

It must first break free from its chain tied up to corporate- and profit-driven language while packaging and greenwashing their initiative for the good of the majority of poor Filipinos. This will only prolong the life of fossil fuels instead of getting closer to a total coal phaseout. Here also lies the question of how effective and efficient their existing policies and projects are while subscribing to the principles of sustainable development. This calls for putting the spotlight on the working draft of ADB's Environmental and Social Framework that can potentially supersede and compromise the ADB's Safeguard Policy due to the key concern of ignoring its "Do No Harm" principle and examining who should be the direct beneficiaries of incentives which give us a clear understanding of for whom ADB works for.

Enabling False Solutions

The main goal and primary objectives of ETM look so promising in the paper, but that does not guarantee positive outcomes for the greater number of Filipino beneficiaries, especially for the communities residing near the coal-fired power plants. If the aim is to retire and repurpose old coal-fired power plants and replace them with renewable energy and 'clean' energy options, then why are carbon-intensive technologies such as fossil gas, waste-to-energy, hydrogen, ammonia co-firing, and carbon capture and storage tagged as a priority over renewable energy?

The assumption that repurposing or fuel-switching a coal plant infrastructure will mitigate GHG emissions is misleading. This major loophole could result in continued dependence on carbon-intensive infrastructure such as fossil gas. A just energy transition is not simply shifting from a dirty energy plant to another dirty energy source because it undermines the efforts to transition to clean energy. The Gas Market Report of the International Energy Agency (IEA) revealed that another form of fossil fuel expansion is taking place in Asia: Coal-to-Gas Conversion and the Coal-to-Gas Replacement.

These allow converting and retrofitting existing coal-fired power plants to burn natural gas. Without a clear-cut coal phaseout policy and exclusion of fossil fuels and repurposing under the ETM, these threats continue to be present.

The Philippines is a testament to the history of multilateral development banks in proliferating false solutions and fossil fuel dependency. In 2012, the World Bank in East Asia and the Pacific Sustainable Development Department, along with Canadian Gas Services International (CGSI), completed a Natural Gas Market Development Strategy for the island of Mindanao in the Philippines. The study revealed that the Phividec Industrial Estate could potentially serve as a Liquefied Natural Gas (LNG) import terminal, which is exactly where the Mindanao CFPP, which is due for ETM, is located. In 2016, there were already plans to build a Floating Storage Regasification Unit (FSRU) in Misamis Oriental near Macajalar Bay, but eventually delisted from the DOE investment lists. Since the announcement of ADB in 2021 to include the Philippines as one of the pilot countries for the implementation of ETM, the entry of fossil gas investments in the Philippines and interests in reactivating the fossil gas industry have increased significantly. The signal was sent through the Philippine Gas and LNG Investment Summit in 2022.

It is also no coincidence that the Republic Act No. 12120, also known as the Philippine Natural Gas Industry Development Act, was passed on January 15, 2025. All are happening while the ownership of the STEAG coal plant in Mindanao is being transferred to Aboitiz Power, a gas expansionist.

ADB has been using the term ‘clean energy’ to mask out and greenwash the harsh reality of developing a fossil gas facility in the country. Its implications revolve around the issues of health, environment, and social impacts that are already experienced and will continue to be suffered by nearby communities within the area of the plant, while failing to address the root causes of climate change and exacerbating the consequences of the climate crisis.

The real face under the mask of ETM is promoting and dragging out the country’s reliance on fossil fuel energy, rather than directly settling on the best situation to redirect their financing for expanding renewable energy. The truth is, renewable energy projects are unattractive to investors and other financiers as they tend to have a lower return on investment (ROI) weighed up against fossil fuel projects.

Transition with conditionalities

Financing arrangements for ETM are tied to loans and conditionalities. CIF allocated a total of $500 million in support to the Philippines to phase out up to 900 megawatts of existing coal generation capacity by 2027. 95% of this total funding is from loans, as only $25 million is the share of grants. This is expected to significantly add to the outstanding debt portfolio of the country at PHP 16.09 trillion as of the end of November 2024.

Because the government is forced to take on more borrowings instead of diversifying its sources of funds to implement measures prescribed by the MDBs. The country's serious debt situation makes it vulnerable to external shocks that can lead to economic instability and stunting growth. ETM subjects the country to long-term debt obligations that impede its very objective to support the country's recovery and long-term goals.

Paying the Polluters

The ETM framework also allows the incentivization of polluters. As the Mindanao CFPP is the only government-owned coal plant in the country, PSALM has the option to pre-terminate the BOT as early as 2026 in exchange for termination payouts to its concessionaires. The payment will be funded through ETM and CIF in the form of concessional and commercial funds as stapled financing to bidders. This means that ADB would provide a pre-structured financial package for bidders to get, rather than having bidders develop their financing plan. If the government of the Philippines opts for the early termination of the BOT concession for the Mindanao CFPP, then the current concessionaire and operator will be paid using public financing to compensate plant owners.

National Just Transition Approach

In spite of its ambitious goal, ETM is facing countless multifaceted problems as implementations have a blurry understanding of what a real just transition is in the state of the Philippines. For the concept of just transition to flourish in the Philippines, it has to confront and resolve the issues that ETM possesses in terms of the lack of accountability mechanisms, meaningful community engagement, and transparency.

The first step in accelerating coal transition is to retire old coal-fired power plants, for which coal retirement must have a pronounced eligibility or reasonable requirements to assess and identify which coal plants must be retired and provide a feasible timeline to pull off the 'acceleration' of coal phaseout. ADB's pledge to align its projects' objectives with the Paris Agreement to lower the global temperature to 1.5°C by 2030 is a major factor in determining how fast this acceleration should be. However, ETM is not aligned with 1.5, considering the slow pacing of its implementation with 5 years left until the deadline year. Let alone the matter of whether fossil gas as a transition fuel will bring us to long-term sustainability or will lock us in a situation where we have no choice but to use fossil fuels.

In the process of retiring coal plants, ADB made a wrong move in abandoning its social and environmental safeguards to uphold basic human rights. This also translates to the absence of meaningful community engagement and consultation while exerting its best effort in coordinating only with the corporate people. Inclusive and people-centered consultations are sought to be delivered as this is the perfect platform for voicing out their concerns, especially on the increase of severe respiratory and cardiovascular diseases due to air pollution, residents' livelihood that will be foregone due to the environmental impacts of the plant affecting the biodiversity and natural resources, and involuntary displacement of communities to give way for the construction of the project.

ADB has to learn from affected communities and civil society organizations (CSOs) on how they define just transition and should not lead on and dictate the country which path to take. This was proven on October 1, 2024 by ADB themselves in taking part of the discussion during the

Just Transition Kickoff of the Department of Environment and Natural Resources (DENR) together with Climate Change Commission (CCC), Department of Energy (DOE), Department of Labor and Employment (DOLE), and Department of Transportation (DOTr) attended by members from the CSOs. The purpose of the gathering for ADB is just to collect concerns without properly addressing the problems and issues raised in each sector that was focused on environment and climate, energy and industry, labor, and mobility.

The 6 Non-Negotiables for a True Energy Transition

If the ADB's goal is truly to facilitate a just transition to a fossil-free Asia, then it must take decisive action to immediately withdraw funding and exclude support for fossil fuels. In a period of climate emergency, a strong commitment to transparency and accountability in the ETM and CIF-ACT program is essential. This commitment must translate and redirect private investment, government support, and resources to the development of renewable systems, modernization of the national grid, and development of community grids.

A true energy transition requires:

01 Full transparency and accountability in the ETM and CIF-ACT process

02 Immediate and total retirement and decommissioning of coal plants to eliminate the possibility of repurposing coal plants for other fossil fuel use

03 Explicit exclusion of false solutions and fossil fuels from its coal phaseout strategies to achieve 100% renewable energy for Mindanao and the Philippines

04 Adoption of a zero-tolerance policy on new fossil fuel infrastructure projects, preventing fossil fuel enablers and expansionists from profiting from public finance under ETM

05 Full accountability, reparations, and remedies for both ADB-backed and financed coal projects and plants due under ETM

06 Grant-based, non-debt-creating, and unconditional support to accelerate a just and equitable transition away from coal

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